



City Council Work Session

Water Rates

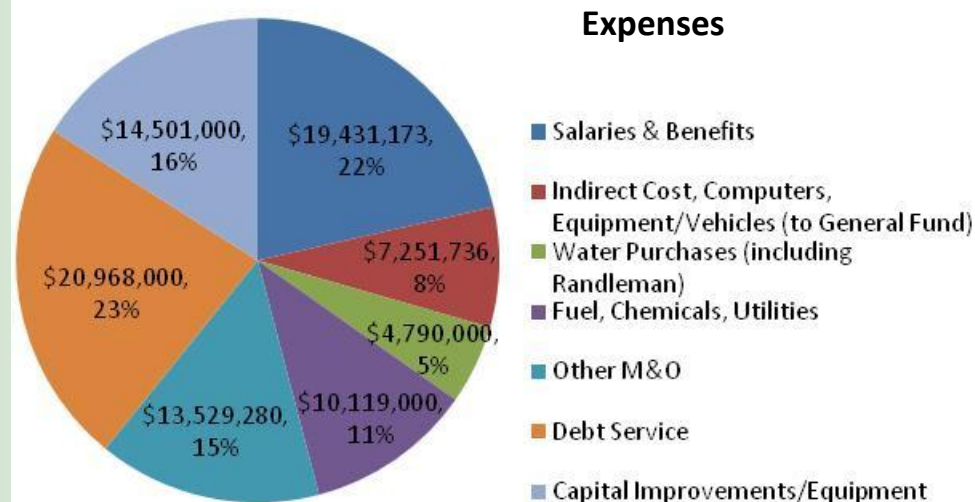
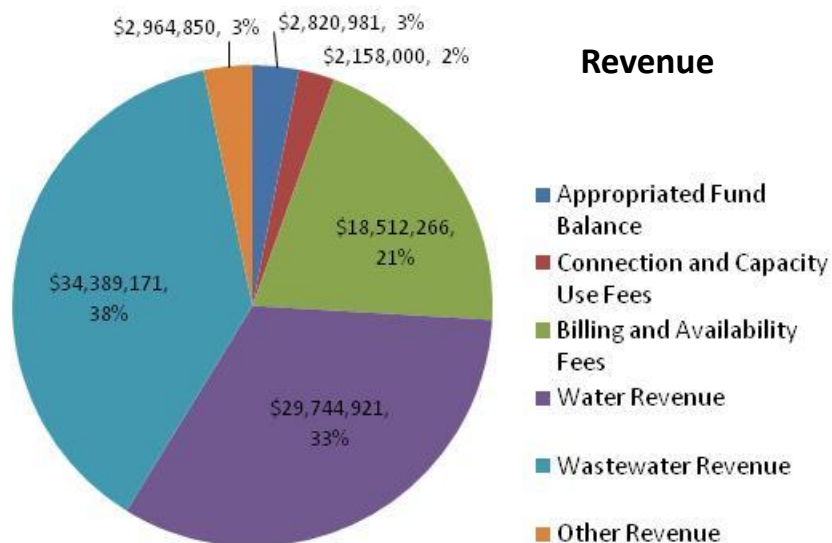
Fund Balance

April 27, 2010

WATER RESOURCES FUND AND PROPOSED RATE INCREASE

Water Resources Proposed FY 2010-2011

Water & Sewer Service Budget Summary – Total Budget: \$90,590,189



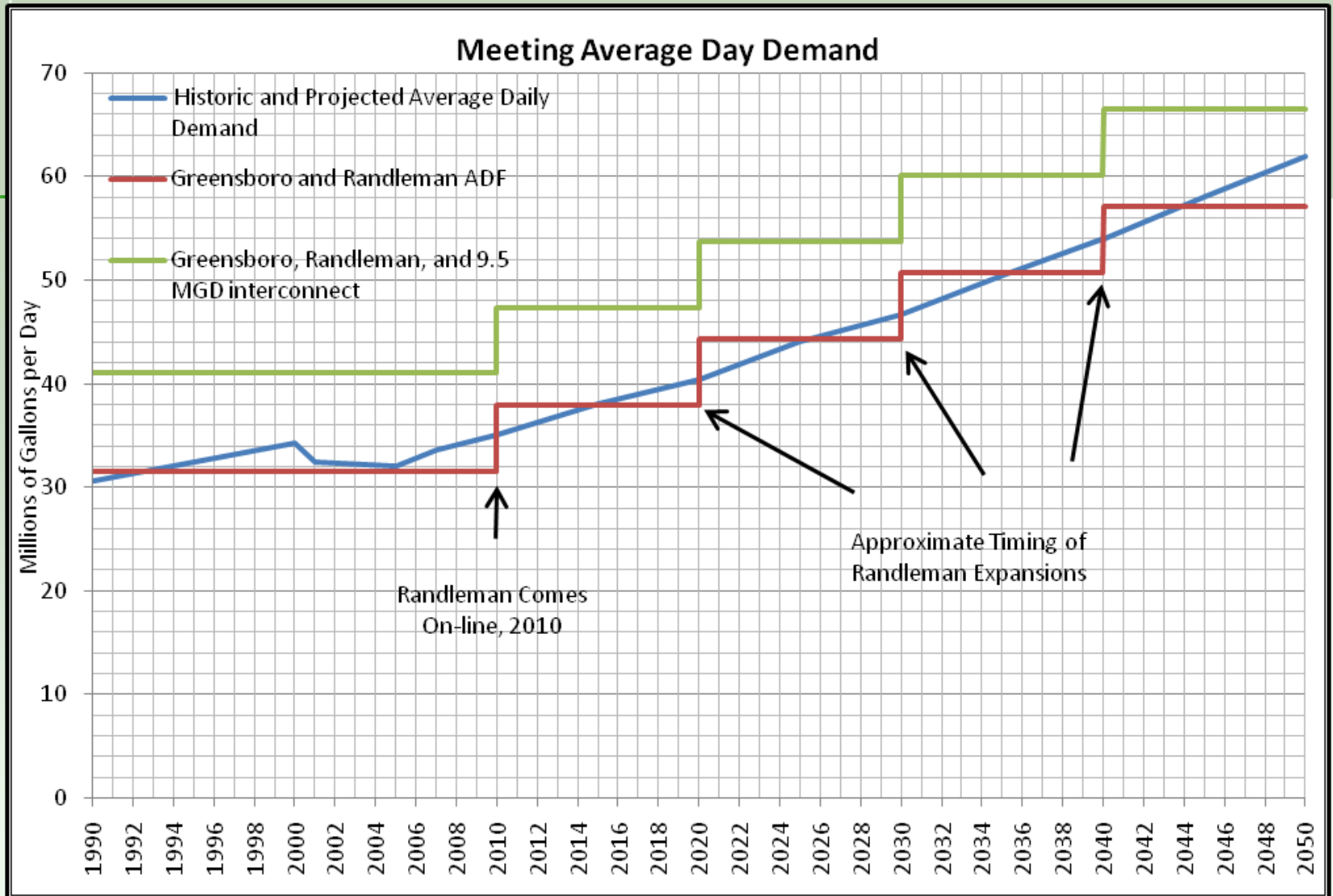
Water Supply

- Water Supply is in excellent shape for yield, drought protection, and product quality
 - Winner of 2008 EPA SE Region “Best Large Surface Water Supply Award”
- 3 water supply reservoirs (Higgins, Brandt and Townsend) with a finished water safe yield of 31.5 MGD (million gallons per day)
- Finished Water Sources:
 - Up to 4.5 MGD from Reidsville (minimum take-or-pay 0.5 MGD with cost of \$250,000 per year)
 - Up to 5.0 MGD from Burlington (minimum take-or-pay 2.0 MGD with cost of \$1.6 M per year)
- With the Randleman Water Treatment Plant opening in late summer, the City will add 6.39 MGD to its finished water supply capacity (take-or-pay with estimated annual cost of \$1.7 M plus \$1.1 M annual member fee for overhead & debt obligations; total = \$2.8 M per year)
- Total Available Finished Water Supply: 47.39 MGD

Water Supply

- Any additional expansion at the Randleman Water Treatment Plant would require the approval from the Piedmont Triad Regional Water Authority (PTRWA) Board of Directors (an additional \$2.7 M capital investment would be required for an additional 6.39 MGD)
 - The PTRWA Board of Directors consists of 10 members, comprised of three members from Greensboro, two from High Point, two from Randolph County, and one each from Jamestown, Archdale, and Randleman
 - The governing body of each member government appoints its representative(s) for a three year term with no limit on number of terms served
- The contract with Burlington expires in 2013 (made \$4.9M investment for interconnect that the City will not recover)
- The contract with Reidsville expires in 2014 (made \$9.2M investment for interconnect that the City will not recover + an additional \$1.5M investment would need to be made to tie off connection, if abandoned)

Water Supply



Unlike other NC cities, Greensboro has the ability to access sufficient water supply for the next 40 years. This is made possible by the significant capital investments (largely through bonds) that the system has made in the last 10 years.

What Drives Up Water Resources Costs?

- Debt Service / Pay-As-You-Go (PAYGO) Capital
 - Increased capacity to accommodate both past and future growth (i.e. Randleman expansion)
 - New, mandatory regulatory requirements for both drinking water quality and wastewater effluent quality
 - Replacement of deteriorated assets/infrastructure due to age of the system (national phenomenon)
- Cost of Commodities
 - Rising electrical and chemical prices
 - Increased chemical usage to meet regulatory requirements
 - Increased electrical usage to meet regulatory requirements

Financial Policies for Water Resources Fund

- Maintain Senior Lien Debt Service Coverage at 2.0 times revenue bond debt service (coverage=total net revenues/total senior lien debt service)
 - Estimated at 2.14 times at FYE 2010; Moody's Aa2 median 2.13 (2008)
 - Springing Reserve Requirement if coverage drops to 1.5x (an \$8.76M cash reserve required which could occur in FY 2010-2011 without a rate increase)
- Unrestricted Cash Reserves equal to 35% to 50% of Operations & Maintenance Expense – Est. at 47.62% FYE 2010; Moody's Aa2 median 65.5%
- Variable Rate Bonds equal to 20% to 25% of total outstanding parity debt - Estimated at 25.5% for FYE 2010
- Pay-As-You-Go (PAYGO) Funding of Capital Expenses from Rates & Charges equal to 25% to 30% of total PAYGO capital funding
 - Estimated at 25% for FYE 2010
- In order to maintain fiscal and system health, City staff is proposing a 9% increase

How to Calculate Coverage

(assumes a 9% rate increase for FY 2011)

	Estimated 2010	Estimated 2011
Revenues:		
Water/Sewer Charges and Fees from Customers	\$83,707,617	\$91,596,440
Other Operating & Non-Operating Revenues	2,174,000	2,110,000
Total Estimated Revenues	<u>85,881,617</u>	<u>93,706,440</u>
Operating Expenses:		
Personnel Services	18,537,732	18,908,487
Maintenance & Operations	26,202,942	27,513,089
Piedmont Triad Regional Water Auth. Annual Fee	1,070,291	1,100,000
Purchased Water from Interlocal Agreements	3,200,000	3,963,000
Other Expenses	1,312,750	1,315,000
Total Estimated Expenses	<u>50,323,715</u>	<u>52,799,576</u>
Net Income Available to Pay Debt Service	35,557,902 (A)	40,906,864
Debt Service Paid on Revenue Bonds	16,595,734 (B)	20,469,713
Times Net Income Can Cover Debt Service	2.14 (A) / (B) times	2.00 times
Moody's Median for Aa2 Rating (2008)	2.13	2.13
Moody's Median for Aa1 Rating (2008)	2.90	2.90
Moody's Median for Aaa Rating (Highest) (2008)	2.37	2.37
(A) - (B) =		
Income Used to Pay other Debt & PAYGO Capital	16,396,594	17,986,646
Remaining Income Available to Maintain Cash Reserve	3,465,574	2,490,864

Water Resources Fund— Unrestricted Cash Position

	FY 2009 Actual	FY2010 Estimate	Fy 2011 Estimate (1)
<i>Operating Fund:</i>			
Cash and Investments	\$30,079,572	\$32,498,508	\$33,489,372
Less Current Payables	(3,489,399)	(3,500,000)	(3,500,000)
Less Prepaid Deposits	(2,340,049)	(2,300,000)	(2,300,000)
Less Encumbrances	<u>(1,017,190)</u>	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Amt. Available for Appropriation	<u>23,232,934</u>	<u>25,198,508</u>	<u>26,189,372</u>
<i>Capital Reserve Fund:</i>			
Total Unrestricted Cash	<u>3,989,232</u> <u>\$27,222,166</u>	<u>6,670,232</u> <u>\$31,868,740</u>	<u>17,232 (2)</u> <u>\$26,206,604</u>
As a % of Operations & Maintenance Expense (Goal = 35% to 50%)	42.05%	47.62%	35.77%
Moody's Median for Aaa Rating (Highest) (2008)	60.40%		
Moody's Median for Aa1 Rating (2008)	66.00%		
Moody's Median for Aa2 Rating (2008)	65.50%		
Moody's Median for Aa3 Rating (2008)	115.80%		
Days of Operating Cash on Hand	153.5	173.8	130.4

(1) With Estimated Rate Increase of 9% July 1, 2010

(2) Balance after PAYGO of \$7,450,000 spent

Rate Increase Scenarios

Effect on Key Ratios

Annual DS Coverage- Parity (x)	2008	2009	2010	2011	2012	2013	2014
Actual Results	2.64x	2.23x	2.14x				
0% Rate Increase				1.62x	1.42x	1.27x	1.21x
9.0%,6.6%,4.60%,1.25% Rate Increase				2.00x	2.00x	2.00x	2.00x
Goal = 2 times parity debt service	Springing Reserve of \$8.76M at 1.50x						
Moody's MEDIAN (Aaa)	2.37x	Moody's MEDIAN (Aa1)		2.90x	Moody's MEDIAN (Aa2)		2.13x
		Charlotte (2009)		2.30x	Greensboro (2009)		2.23x
Moody's MEDIAN (Aa3)	2.40x	Raleigh (2009)		2.38x	Winston-Salem (2009)		1.73x
Unrestricted Reserves as % of O/M							
Actual Results	52.20%	42.05%	47.62%				
0% Rate Increase				32.72%	26.13%	13.41%	2.58%
9.0%,6.6%,4.60%,1.25% Rate Increase				35.77%	38.16%	39.46%	43.84%
Goal = 35% - 50%							
Moody's MEDIAN (Aaa) %	60.40	Moody's MEDIAN (Aa1) %		66.00	Moody's MEDIAN (Aa2) %		65.50
		Charlotte (2008)		159.80	Greensboro (2008)		52.20
Moody's MEDIAN (Aa3) %	115.80	Raleigh (2008)		66.00	Winston-Salem (2008)		114.20

- Last year, City staff indicated if a rate increase was not approved for the FY 2009-2010 budget, a bigger increase would be necessary for FY 2010-2011
 - At the time, City Staff estimated a 10% increase if the increase took effect July 1, 2010, with 5% annual increases thereafter
 - City Staff recommends a 9% increase effective July 1, 2010, which will generate \$7.5 million in revenue

Utility Enterprise Fund Credit Rating History

Bond Issue	CREDIT RATING AGENCY			Debt Service Coverage Ratio
	S&P	Moody's	Fitch	
1995	AA-	A1	NA	NA
1996				3.77
1997				3.35
1998	AA-	A1	AA-	4.02
1999				5.79
2000				3.30
2001	AA-	Aa3	AA	3.05
2002				1.85
2003	AA+	Aa3	AA+	1.76
2004				2.20
2005	AA+	Aa3	AA+	2.30
2006				2.54
2007	AAA	Aa2	AA+	2.76
2008				2.64
2009	AAA	Aa2	AA+	2.23
2010 Est.	NA	NA	NA	2.14

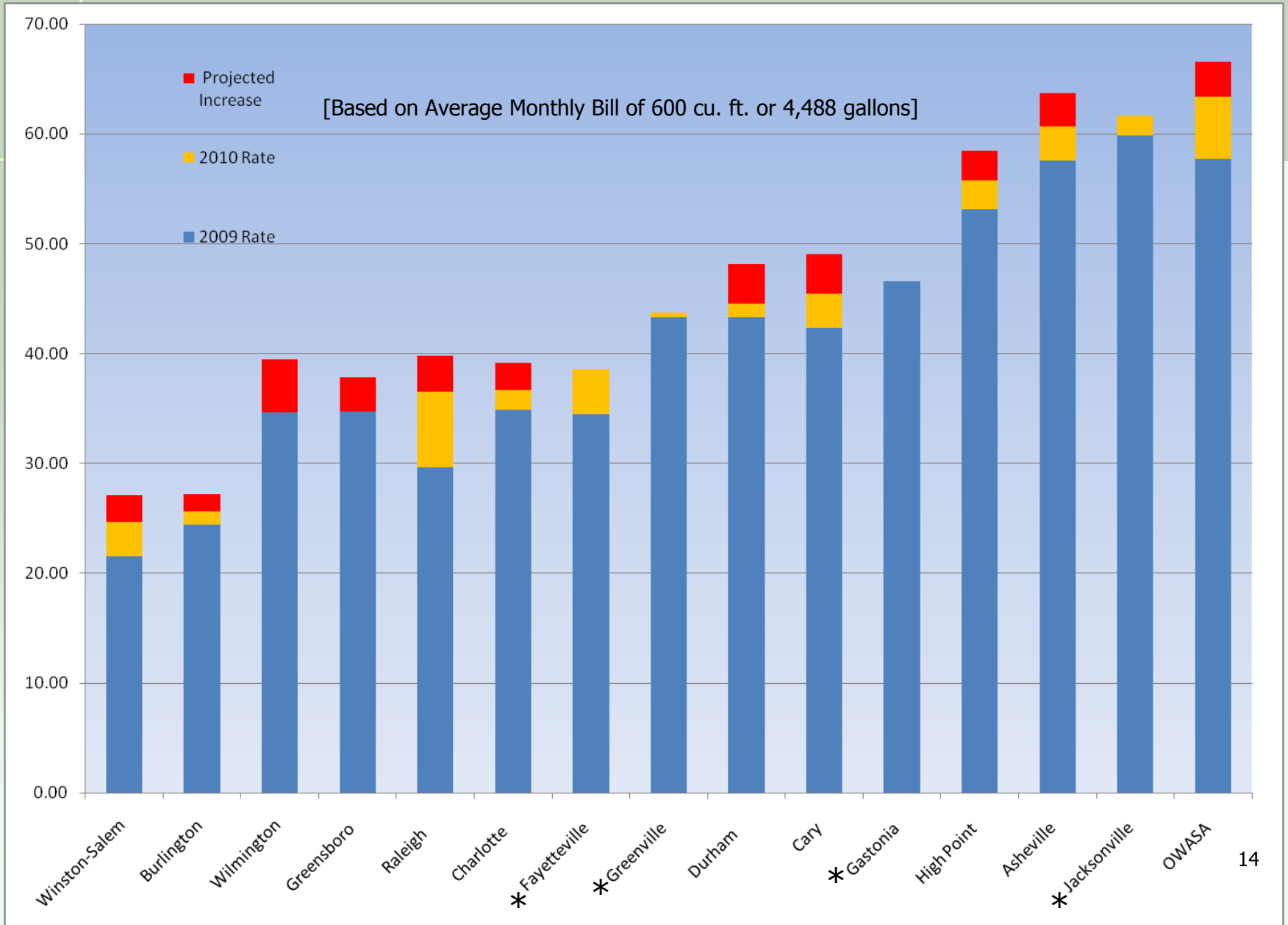
Investment Grade Scale			
	S&P	Moody's	Fitch
Highest	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
Lowest	BBB-	Baa3	BBB-

Five Criteria reviewed by Rating Agencies for Enterprise Debt Rating: Finances; Bond Covenants/Indenture; Debt/Capital Plan; Economy/Customer Base; and Management Policies/Practices

Why a Rate Increase?

- Maintain Credit Ratings (ensures lower interest costs)
- Most of system's expense is capital related (fixed) and the capital is needed to respond to expansion, deterioration and regulatory mandates
 - Continuation of Water and Sewer Line Rehabilitation, which is funded on a PAYGO basis

Current and Projected Water Rates for Greensboro and Comparable Utilities in NC (*projected rate increase for FY 2010-2011 not available)



FUND BALANCE

Fund Balance – LGC

- Local Government Commission recommends:
 - A minimum level of fund balance available for appropriation in the General Fund of 8% of the prior year's expenditures, in order to:
 - Meet current obligations, and
 - Prevent cash flow difficulties
 - Maintaining additional fund balance available for appropriation in the General Fund in case unforeseen needs or opportunities arise
 - The additional amount would be influenced by such factors as the size of the unit, economic conditions, future capital outlay needs, stability of revenue sources and susceptibility to natural disasters

City Council Adopted Policy on Fund Balance & Capital Reserve Account

- Fund Balance & Capital Reserve Policy
 - The City shall maintain an undesignated fund balance equal to 9% of the following year's General Fund adopted budget, with any amount in excess of 9% being credited to a capital reserve account until a minimum of \$10 million is accumulated
 - Once the minimum goal is reached additional funds can be used for "pay-as-you-go" capital expenditures
 - Before any appropriations can be made from the Undesignated Fund Balance of the General Fund, seven yes votes from the nine-member Council shall be required

General Obligation (GO) Bond Rating

■ GO Bond Rating

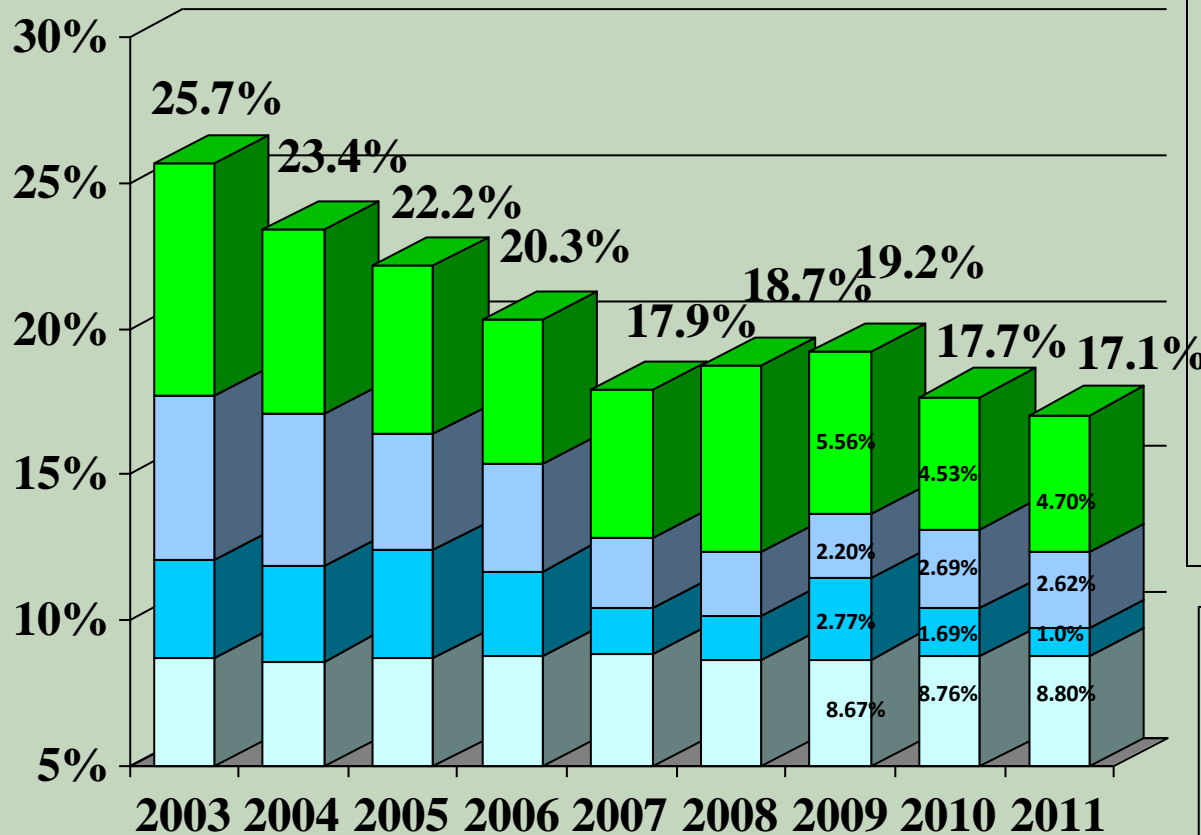
- Secured by full faith and credit (pledge to levy property taxes sufficient to pay debt service)
- The rating is a forward-looking assessment of relative credit strength, compared to peers, and is based on four factors:
 - Economic Condition & Outlook 40%
 - Financial Position & Performance 30% (Moody's rating factors, 2009)
 - Management & Governance 20%
 - Debt Profile 10%
- AAA, the highest bond rating, demonstrates the strongest creditworthiness relative to other US municipal or tax-exempt issuers

	Fitch	Moody's	S&P
Greensboro	AAA	Aaa	AAA
Guilford County	AA+	Aa1	AAA
High Point	AA	Aa2	AAA

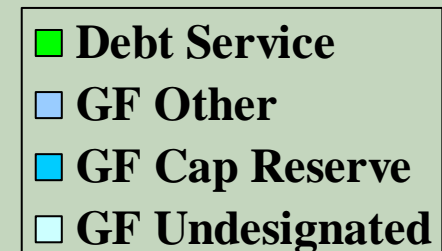
Rating Agency Feedback

- January 16, 2008, Fitch Ratings indicated, in describing the key rating drivers to the City's AAA rating, "fund balance levels expected to stabilize at slightly higher than current levels"
- January 16, 2008, Moody's "believes that the maintenance of a strong financial position is key for maintenance of the City's Aaa rating" and that the "maintenance of healthy reserves is key to credit quality"
- January 9, 2008, Standard & Poor's noted that the AAA rating reflects the City's "strong financial position and performance, coupled with conservative fiscal policies for reserve and debt management"

Available Fund Balance General & Debt Service Funds as % of Subsequent Year's Budget



<u>\$Millions</u>	
2003	51.7
2004	51.0
2005	49.1
2006	46.6
2007	44.2
2008	49.9
2009	51.0
2010 est.	46.4
2011 est.	45.7



Available Fund Balance

General Fund

- Available Fund Balance in the General Fund only is comprised of four components in the audited FY 2009 financial statements:

– 9% Fund Balance Policy	\$23,006,499
– Capital Reserve Account	7,371,105
– Appropriated for FY10	4,174,688
– Household Haz. Waste Program	<u>1,644,768</u>
Total Available General Fund	<u>\$36,197,060</u>

Municipal Governments in North Carolina

General Fund Balance Available

(for Municipalities w/o Electric Systems)

Fiscal Year Ended June 30, 2009

Moody's GO Rating			General Fund		General Fund /Debt Service Fund	
	Municipality	Population	Fund Balance Available GF	FBA as % GF Net Exp.	FBA GF / DS Fund	FBA as % GF / DS Fund Exp.
Aa2	Asheville	78,313	\$ 16,696,979	18.74		
A1	Burlington	50,927	26,340,875	56.32		
Aaa	Cary	141,167	50,461,069	45.84		
Aaa	Chapel Hill	55,616	15,511,541	32.98		
Aaa	Charlotte	683,541	105,980,000	21.17	292,253,000	48.29
Aaa	Durham	228,480	23,798,388	11.83	23,798,388	11.83
Aaa	Greensboro	263,268	36,197,060	14.59	50,969,337	20.05
A2	Jacksonville	81,873	11,125,746	30.59		
Aaa	Raleigh	377,353	117,066,073	34.63	117,066,073	34.63
Aa2	Wilmington	101,526	18,648,976	22.38		
Aaa	Winston-Salem	228,362	26,647,164	14.86	31,083,260	16.14
	Total		\$ 448,473,871			
	Group Statistics 50,000 population and above:					
	Range:					
	Low est		\$ 11,125,746	11.83		
	Highest		\$ 117,066,073	45.84		
	Average		\$ 40,770,352	23.86		
	Statewide Average:		\$ 2,820,712	37.56		
Aa2	High Point (Electric)		\$ 14,706,982	14.10	\$33,341,190	30.65
Aa1	Guilford County		\$ 103,199,182	19.17	103,199,182	19.17

History of GO Bond Rating

Date Bonds Issued	S&P	Moody's	Fitch
1986	AA+	Aa1	-
1988	AA+	Aa1	-
1990	AAA	Aa1	-
1992	AAA	Aa1	-
1994	AAA	Aa1	-
1996	AAA	Aa1	-
1998	AAA	Aa1	-
2003	AAA	Aa1	AAA
2005	AAA	Aa1	AAA
2006	AAA	Aaa	AAA
2008	AAA	Aaa	AAA

Summary

- Good Fiscal Stewardship from Governmental Finance Officers' Association (GFOA)

"It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning."

"GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."